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Policy Research Group

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When is a Business "small"?

The size of a business can be defined in many ways, for example by the value of its annual sales or shipments, its annual gross or net revenue, the size of its assets, or by the number of employees. Many institutions define small businesses according to their needs. For example, the Canadian Bankers' Association classifies a loan authorization of less than $250,000 as small and the Export Development Corporation defines small businesses or "emerging exporters" as firms with export sales under $1 million. Industry Canada often uses a definition based on the number of employees: A goods producing firm is considered "small" if it has fewer than 100 employees, while for service producing firms the cut-off point is seen as 50 employees. Above that size, and up to 500 employees, a firm is considered medium-sized. The term "SME" (for small and medium enterprise) is used to refer to all these components of the economy together. As will be seen, in practice, reporting on small businesses often cannot adhere to any "ideal" definition due to data limitations.

How many Businesses are there in Canada?

The Business Register of Statistics Canada maintains a count of business establishments, and releases the result twice a year. To be counted as a business establishment[1], a business must have at least one paid employee, or have an annual sales revenue of $30,000, or be incorporated and have filed a federal corporate income tax return at least once in the previous three years.

As of December 2001, there were approximately 2.2 million businesses in Canada (Table 1). About one-half of all business establishments maintained a payroll of at least one person (possibly the owner) and are called "Employer Businesses." Businesses that do not maintain a payroll are labelled "Indeterminate" because the number of employees, if any, cannot be determined; they may employ contract workers. They account for the other half of the total number of business establishments in Canada.

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[1] Statistics Canada uses four standard statistical business units for purposes of compiling statistics. Establishments are the smallest unit/grouping for which data are published. Establishments must:

a) produce a homogeneous set of goods or services;
b) not cross provincial boundaries; and
c) provide data on the value of output together with the cost of principal intermediate inputs used along with the cost and quantity of labour resources used to produce the output.

For example, a business unit that provides independent accounting information to the government on sales taxes and payroll deductions would be recognized as an individual business establishment.

About 58% of all businesses are located in Ontario and Quebec, 35% in the western provinces, and 6% in the Atlantic provinces. The distribution of employer businesses across provinces is almost the same as that of all business establishments.

Table 1: Total Number of Business Establishments, and Number of Establishments relative to Provincial/Territorial Population and Gross Domestic Product, 2001

Provinces/ Territories	Business Establishments			Total No. of Businesses per 1000 Population	Thousands of GDP $ per Business Establi.
	Total	Employer Businesses	Indeterminate*		
Newfoundland	26,472	17,707	8,765	49.6	526
Prince Edward Island	10,654	7,035	3,619	76.9	321
Nova Scotia	52,646	31,898	20,748	55.8	473
New Brunswick	45,418	27,882	17,536	60.0	445
Quebec	502,207	243,171	259,036	67.8	455
Ontario	773,426	345,028	428,398	65.1	569
Manitoba	76,275	36,092	40,183	66.3	460
Saskatchewan	96,222	41,069	55,153	94.7	344
Alberta	284,871	135,480	149,391	93.0	528
British Columbia	315,738	157,421	158,317	77.1	413
Yukon Territory	2,891	1,708	1,183	96.7	391
Northwest Territories	2,710	1,801	909	66.3	1,077
Nunavut	748	578	170	26.6	1,219
Canada Total	**2,190,278**	**1,046,870**	**1,143,408**	**70.5**	**495**

Source: Statistics Canada, Business Register, December 2001; National Income and Expenditure Accounts 2001; Estimates of Population by Age and Sex for Canada, the Provinces and the Territories, July 2001

Note*: The indeterminate category consists of incorporated or unincorporated businesses without employees. The Business Register classifies a business as "indeterminate" when it cannot be determined through payroll data that the firm has paid employees. The firm may well provide work under contract.

Relative to the population, there are more business establishments in the western provinces, Yukon, and Prince Edward Island than there are anywhere else. The highest rates are found in Yukon and Saskatchewan, at 96.7 and 94.7 per 1,000 population, respectively (Table 1). Among the provinces, Newfoundland, Nova Scotia and New Brunswick have the lowest ratios of establishments per 1,000 population. Ontario and Quebec's are below the national average of 70.5, at 65.1 and 67.8 establishments per 1,000 people respectively.

Looking at the ratio of provincial Gross Domestic Product per business establishment reveals that Ontario scores highest at $569,000 per establishment; Newfoundland and Alberta also come out above the national average of $495,000 while Prince Edward Island and Saskatchewan obtain the lowest ratios. Except in Alberta, provinces with more business establishments per 1,000 population than average all have lower than average GDP per business.

Of the 1 million employer businesses, less than 3,000 or 0.3% have more than 500 employees. Ninety-eight percent have fewer than 100, 75% have fewer than 10, and 59% have just 1 to 4 employees (Table 2).

Table 2: Business Establishments by Firm Size (Number of Employees), December 2001

No. of Employees	Cumulative Percent of Employer Business Total	No. of Business Establishments		
		Total	Goods-Producing Sector*	Service-Producing Sector*
Indeterminate*		1,143,408	317,532	825,876
Employer Business Total	*100.0%*	*1,046,870*	*247,981*	*798,889*
1~4	58.8%	615,304	155,800	459,504
5~9	75.4%	173,630	34,683	138,947
10~19	86.7%	118,623	23,844	94,779
20~49	94.8%	84,633	18,663	65,970
50~99	97.7%	30,924	7,986	22,938
100~199	99.1%	14,428	4,264	10,164
200~499	99.7%	6,582	2,126	4,456
500+	100.0%	2,746	615	2,131
Grand Total		**2,190,278**	**565,513**	**1,624,765**

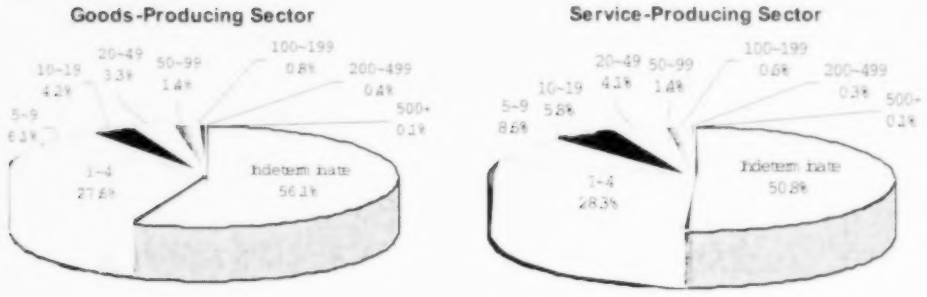
Source: Statistics Canada, Business Register, December 2001

Note*: The indeterminate category consists of incorporated or unincorporated businesses without employees. The Business Register classifies a business as "indeterminate" when it cannot determine through payroll data that the firm has paid employees. The firm may well provide work under contract.

Note : By conventional Statistics Canada definition, the goods-producing sector consists of NAICS codes 11 to 31~33, while NAICS codes 41 to 91 define the service-producing sector.

About one quarter of all business establishments, indeterminate and employer businesses alike, produce goods and the others provide services. Goods-producing small firms (those with fewer than 100 employees), make up 97% of goods-producing employer business establishments (Table 2 and Graph 1). Of all employer businesses that provide services, 95% have fewer than 50 employees.

Graph 1: Number of Establishments in the Goods-Producing and Service-Producing Sectors, December 2001



Source: Table 2

So where are the Self-Employed in this Count of Businesses?

In short, everywhere. First to note is that the designation "self-employed" is based on Statistics Canada's Labour Force Survey, which is a count of people (see **Who is Self-Employed?**). Table 2, on the other hand, provides a count of businesses. It is tempting to combine the two counts because of the notion that self-employed persons operate their own businesses. While this is true, the two are distinct counts that should not be added together. First, when counting businesses, a business owned by a person who is identified as self-employed, and who is on the payroll of his or her own business, would be captured as an "employer business" in the appropriate size category (Table 2). The business establishment of a self-employed owner who is not on his or her own payroll, and has nobody else on the payroll, will be counted among the 1 million "indeterminate" business establishments. On the other hand, when counting people, while many self-employed persons operate a business, many others do not, at least not as defined by the Business Register (see **How Many Businesses are there in Canada?**) and thus would not be included in the count of businesses. It is not known what the degree of correspondence is between the 2.2 million "business establishments" in Canada and the 2.3 million persons in the active population who are identified as "self-employed." For more on self-employment, see **How many People are Self-Employed?**. For more on small business employment based on payroll data, see **How many People work for Small Businesses?**.

How many Businesses appear and disappear each Year?

Thousands of businesses enter and exit the market place throughout the year. Keeping track of these births and deaths is no easy matter. Our best source is Statistics Canada's Employment Dynamics which compares businesses in a base year with those in the year following. If a business is observed to exist in the year following but not in the base year, it is considered to be an "entry" and vice versa for an "exit" of a business. While there could be other reasons why a business cannot be found on the register of either year,[1] in the main the data give a good picture of the turbulence of new and disappearing businesses.

The Employment Dynamics data are based on payroll deduction data issued by employers and therefore cover only "employer businesses." The most recent data available refer to 1997-98. The counting unit of "employee" in Employment Dynamics is an Average Labour Unit (ALU), a derived unit obtained by dividing the total payroll in a business by the average annual earnings in a firm of that size in the same industry. ALUs aim to measure the number of people, on average, who worked for a business in the course of a year, that is, the average level of employment in a business.

Graph 2 shows the number of small and medium-sized businesses (fewer than 500 employees) that entered and exited the marketplace annually between 1983 and 1998. The graph shows that for most of the 1980s, the gross number of annual business entries remained around 150,000, while the number of exits increased steadily to a record 150,000 in the 1990-1991 period, when, for once, the number of exits exceeded the number of entries. From a lower level after the recession in the early 90's, the number of entries grew again to nearly the 150,000 level by 1997-1998. At the same time, the number of exits varied but generally decreased. From near zero in 1991-92, the net number of entries remained low until 1996-97, when they again approached pre-recession levels.

Graph 2 also shows real GDP growth, a measure of the state of the economy. The business cycle is a key explanation for the variation of entries and exits over time. The number of entries increases when the economy expands, and drops in a slowdown, while the number of exits is inversely related to the state of the economy.

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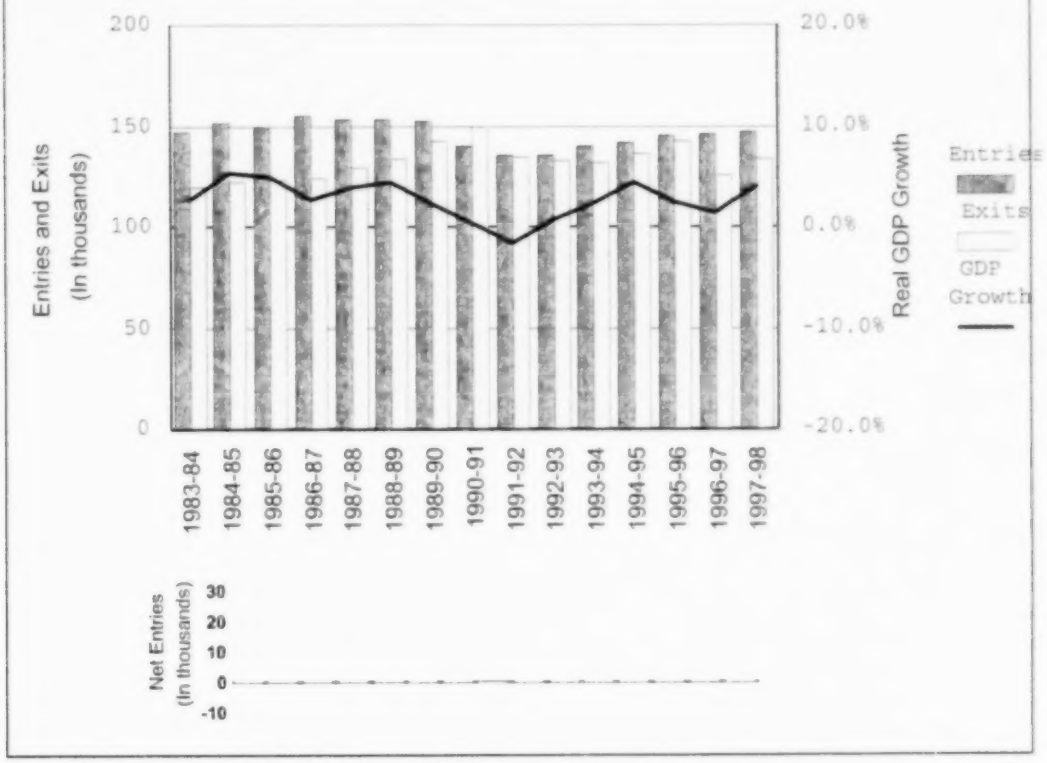
[1] A firm reorganization may involve name changes, mergers, or a division of existing payroll accounts, and more. To the extent possible, false signals about firm deaths and births such as those are deleted from the data. A legitimate firm death can occur in certain merger cases, as a result of an owner's decision to cease operations, because the firm has gone bankrupt, or for a number of other reasons. For more on bankruptcies, see **Bankruptcy Statistics**.

Entry and Exit data by province show that Ontario and Quebec account for much of the volatility in net entries. These two provinces had positive net entries for the entire period except for the early 1990s, while British Columbia and Alberta had positive net entries for the entire period. The Maritime provinces, Prairie provinces, and Territories experienced positive net entries throughout much of the 1980s, but saw these turn negative during much of the 1990s.

Graph 2: Entries and Exits of Canadian Businesses up to 500 Employees, and GDP Growth, 1983-1984 to 1997-98



Source: Statistics Canada, Employment Dynamics, 1983-1998, and National Income and Expenditure Accounts

Bankruptcy Statistics

Only a small proportion of firms that "exit" the market place end up filing for bankruptcy. On average over the last 12 years, the number of business bankruptcies in Canada has been approximately 12,000 per year. They gradually increased from about 11,000 in 1990 to reach a peak at over 14,000 in 1996. Since then, business bankruptcies have been on the decline, to about 10,000 in 2001. More detailed statistics on business bankruptcies as well as the liabilities involved are available at the web site of *The Office of the Superintendent of Bankruptcy*, <http://strategis.ic.gc.ca/sc_mrksv/bankrupt/engdoc/superint.html>. The data are also regularly reported in Industry Canada's **Small Business Quarterly**.

How long do Small Businesses survive?

How long a business stays in business is influenced by many different factors. Geographic location, industry, size, and age of a business are some of the "predictable" factors affecting how long a business stays active. There are also "unforeseen" factors that may directly influence a business' survival such as changes in the marketplace. Examples of market influences include the number and size of competitors and new entrants, as well as general economic conditions.

Determining the probability of survival based on "predictable" factors is one way of answering the question of how long businesses survive. It is a more useful way than determining the average age of businesses because the majority of start-up firms do not operate for very long. The probability of survival is defined as the percentage of new firms that continue to operate when they reach a given age. Table 3 presents the survival rates from start-up, by region, for two size classes of businesses: "Micro" (fewer than 5 employees) and "Small" (5 or more, up to 99 employees). The table is based on firms that entered the market over the 1984-1995 period; the longest-observable age was therefore 11 years. The table indicates that, for example, 30% of micro-business entrants in the Atlantic provinces stayed in business for at least four years.

The percentage of new firms that remain in business after one, two or three years declines rapidly. That is, failure rates are high in the first few years after start-up. This is even more so for micro-businesses than it is for other small businesses. Beyond the first three years, survival rates of micro-businesses continue to be well below those of larger small firms. This can be explained in part by the likelihood that micro firms require less investment, which reduces the cost of failure; this could induce micro firms to take more risks which implies a higher probability of failure.

The survival rates of new micro firms are consistently lowest in the Atlantic region for businesses of any age and nearly the same holds for other small firms. Small-firm survival rates are also low in the Prairie provinces. The survival rates for new firms in Quebec, Ontario and B.C. are very close together for all ages of firms in both size classes.

Table 3: Survival Rates of Micro and Small Businesses, by Region, Size and Age of Business, in percent

	Micro Businesses (<5 employees)					Small Businesses (5~99 employees)				
AGE	ATLANTIC	QUE	ON	PRAIRIE	BC	ATLANTIC	QUE	ON	PRAIRIE	BC
1	61%	74%	78%	72%	76%	86%	90%	91%	89%	91%
2	45%	58%	62%	56%	59%	74%	78%	79%	75%	78%
3	37%	47%	50%	46%	48%	65%	68%	69%	65%	68%
4	30%	40%	42%	39%	40%	58%	61%	61%	57%	61%
5	26%	34%	36%	33%	34%	52%	54%	55%	51%	55%
6	22%	30%	31%	29%	30%	47%	49%	49%	46%	50%
7	19%	26%	27%	25%	26%	43%	44%	44%	42%	46%
8	17%	23%	24%	22%	23%	39%	41%	40%	39%	43%
9	15%	21%	21%	20%	21%	36%	38%	37%	36%	39%
10	13%	19%	19%	18%	19%	34%	35%	33%	33%	36%
11	12%	17%	17%	16%	17%	30%	32%	31%	30%	34%

Source: John Baldwin et al., Failure Rates for New Canadian Firms: New Perspectives on Entry and Exit (Statistics Canada),2000

How many People work for Small Businesses?

To best answer this question, establishments, where applicable, are consolidated into the enterprise of which they are a part. Statistics Canada defines a business enterprise as "a family of businesses under common ownership and control for which a set of consolidated financial statements is produced on an annual basis." Statistics Canada's Survey of Employment, Payrolls and Hours (SEPH) covers employer businesses in Canada and reports the number of employees at the enterprise level. Self-employed persons who are not on their own payroll are not included in these figures, nor are employees in the following industries: agriculture, fishing and trapping, private household services, religious organisations and military personnel of defence services. Firms are grouped into seven size categories: Fewer than 4 employees; 5 to 19; 20 to 49; 50 to 99; 100 to 299; 300 to 499; and 500 and more.

According to SEPH data, on average in 2001, almost 5 million employees on payroll, or 47% of the total private[1] labour force, worked for small enterprises with fewer than 100 employees (Table 4). Another 1.6 million or 16% worked for medium sized firms (100 to 499 employees). In total, therefore, small and medium sized firms employed close to 6.4 million or 62% of all employees in the private sector covered by the SEPH.

The distribution of employment by size of firm varies considerably for different industries. Table 4 and Graph 3 show that in ten industries, small firms dominate, employing more than half the total number of workers. In Construction (78%), Other Services (73%), and Accommodation and Food (68%) industries, over two thirds of the total work force belongs to small businesses. In terms of the total number of people employed, Retail Trade (.75 million), Manufacturing (.65 million), Accommodation and Food (.64 million), Construction (.45 million), and Wholesale Trade (.40 million) were the industries with the largest number of employees working for small firms, accounting for over 60% of all small firm jobs in Canada.

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[1] Private sector employment in the SEPH data was identified with the aid of Employment Dynamics and Small Business Profiles data for corresponding years and by projecting trends for more recent years. A technical note on the methodology employed is available; please contact **Customer Services**. Private sector employment as defined in Table 4, in addition to the industries excluded by SEPH, excludes employment in Public Administration, postal services, public transit, educational services and institutional and other government-funded health care services, but includes employment in private sector health practices and beer and liquor stores.

Table 4: Number of Private Sector Employees by Industry and Size of Business Enterprise, 2001

Industry	Total	Size of Business Enterprise (No. of Employees)								
		0 - 4	5 - 19	20 - 49	50 - 99	*Small (<100)*	100 - 299	300 - 499	*Medium (100~499)*	*Large (500 +)*
Forestry	76,448	10,686	17,657	10,642	6,143	45,128	6,115	-	-	-
Mining	138,685	6,865	12,074	9,352	8,095	36,386	13,892	9,038	22,930	79,369
*Utilities**	112,067	552	1,879	1,896	2,249	6,576	5,621	3,044	8,665	96,826
Construction	575,702	117,805	176,722	97,855	55,909	448,291	50,029	12,997	63,026	64,385
Manufacturing	2,037,873	48,808	177,294	215,049	206,653	647,804	339,732	144,108	483,840	906,229
Wholesale Trade	723,310	56,618	144,269	115,752	84,381	401,020	100,480	37,459	137,939	184,351
Retail Trade	1,488,916	123,423	289,180	191,330	148,603	752,536	119,403	33,938	153,341	583,038
*Transportation & Warehousing**	796,247	43,000	66,779	54,707	37,587	202,074	61,622	22,651	84,273	223,553
Information & Cultural	346,620	10,356	23,312	21,038	18,445	73,151	32,702	18,805	51,507	221,962
Finance and Insurance	555,641	27,161	40,223	35,113	28,585	131,082	38,227	18,756	56,983	367,575
Real Estate and Rental	215,859	39,047	51,621	27,596	18,036	136,300	24,761	9,059	33,820	45,739
Professional Services	639,322	121,186	128,984	79,460	53,260	382,890	71,511	30,737	102,248	154,184
Manag. of Comp. & Enterp.	83,802	13,433	13,837	10,373	5,691	43,334	9,636	-	-	-
Administration, Waste Manag.	527,270	45,386	80,949	57,634	45,342	229,311	77,186	39,901	117,087	180,872
*Health**	358,595	80,546	73,106	11,792	2,802	168,245	2,212	1,106	3,318	15,468
Arts, Entertainment & Recreation	223,041	13,818	38,521	35,507	25,855	113,701	35,950	13,389	49,339	59,999
Accommodation & Food	941,651	52,933	237,830	216,542	134,619	641,924	118,741	34,428	153,169	146,558
Other Services	476,021	102,643	150,376	58,693	34,396	346,108	47,303	19,493	66,796	63,116
Industry Aggregate Total*	***10,317,070***	***914,266***	***1,724,613***	***1,250,331***	***916,651***	***4,805,861***	***1,155,123***	***453,993***	***1,609,116***	***3,444,179***

Source: *Statistics Canada, Survey of Employment, Payrolls and Hours (SEPH), January 2002, and calculations by Industry Canada. Industry data are classified in accordance with Statistics Canada's NAICS.*

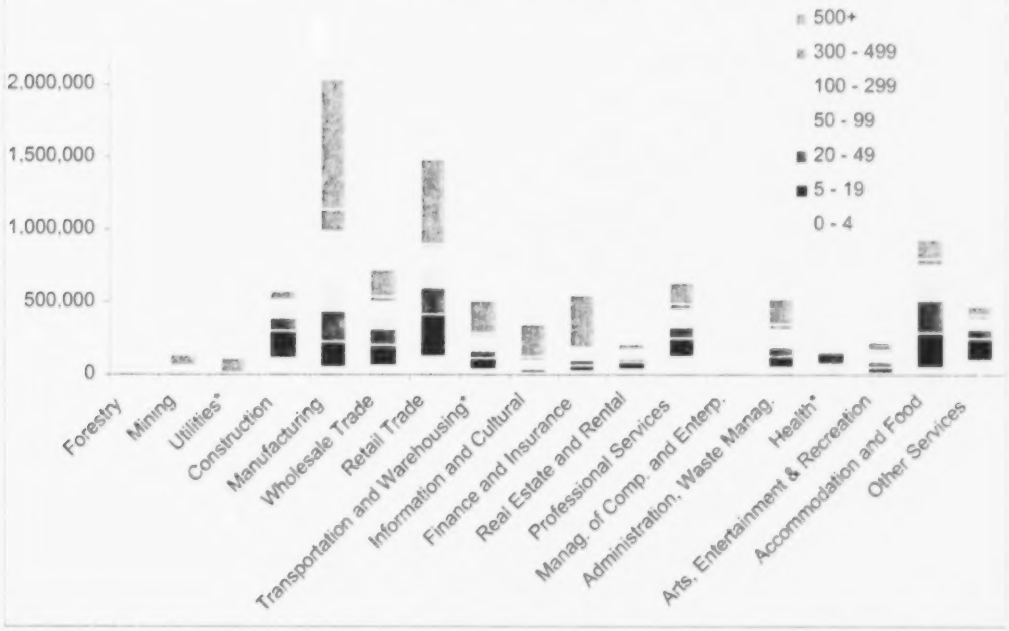
Note[1]: *SEPH data exclude self-employed workers who are not on a payroll, and employees in the following industries: agriculture, fishing and trapping, private household services, religious organizations and military personnel of defence services. The data breaking down employment by size of firm also exclude unclassified industries.*

Note[2]: *In two industries, data for firms with 300 or more employees were suppressed for confidentiality reasons but were included in both the size aggregate and industry totals. Therefore, the sum of individual industry data does not add up to the industry aggregate total nor does the sum over the size categories equal the size totals for those two industries. Size data and industry data do not always add up to their respective totals due to rounding.*

Note[3]: *Statistics Canada cautions that data by size produced for quarters prior to year 2001 were estimated from the previous data based on the SIC-1980 and then backcasted on the new NAICS classification. Especially in the smallest size categories, more volatility in the data should be expected.*

Note:* *Data shown in this table exclude employment in Public Administration, postal services, public transit, educational services and institutional and other government-funded health care services, but include employment in private sector health practices and beer and liquor stores. The March 2002 issue of the Small Business Quarterly published data as in Table 4, but without excluding public sector employment. A technical note on the separation of public and private sector employment is available; please contact* ***Customer Services****.*

Graph 3: Number of Private Sector Employees by Industry and Size of Business Enterprise, 2001



Source: Table 4

How many Jobs do Small Businesses create?

Over the last seven years, data have become available on what size of firms create net jobs in the economy. The data are derived from Statistics Canada's Survey of Employment, Payrolls and Hours (SEPH), and have been regularly published in the **Small Business Quarterly**. The SEPH data exclude job creation through self-employment, unless the person is on the payroll of his/her enterprise. Other limitations also apply (see **How many People work for Small Businesses?**).

Table 5 and Graph 4 display the relative contribution to job creation in the private sector economy covered by SEPH, by "small", "medium", and "large" businesses over the years 1994 to 2000. During the 1994 to 2000 period, data availability limits the definition of "small" businesses to firms with fewer than 50 employees, "medium" to more than 50 but fewer than 300 employees and "large" to more than 300 employees. The relative contribution by each size class has varied considerably, and throughout the seven-years period each size class has played a major role in creating jobs in Canada at a certain time period. In 1994 and 1995, large businesses were shedding jobs and most of the job creation was found in small enterprises. In 1996 and 1997, medium-sized enterprises took over the lion's share of net job creation. In the last three years of the 1994 to 2000 period, small businesses created less than a quarter of net new jobs while large enterprises were responsible for more than half of the total.

A significant limitation of these data is that they cover a generally expansionary period, with only a mild downturn in 1995-1996. In a more severe downturn or a recession, the percentage contributions to job creation (or loss) by smaller business may be quite different.

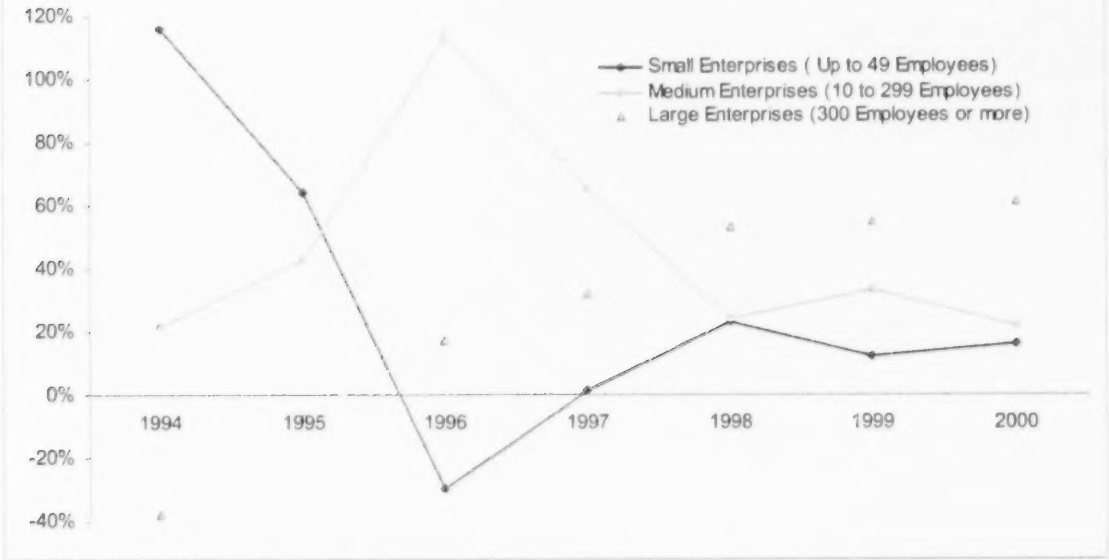
Table 5: Percent Contribution to Net Private Sector Paid Employment Change by Size of Business Enterprise, 1994~2000, annual averages

Year	% Contribution to Private Sector Employment Change		
	Small Enterprises (Up to 49 Employees)	Medium Enterprises (50 to 299 Employees)	Large Enterprises (300 Employees or more)
1994	116%	22%	-38%
1995	64%	43%	-7%
1996	-30%	113%	17%
1997	3%	65%	32%
1998	23%	24%	53%
1999	12%	33%	55%
2000	16%	22%	61%

Source: *Statistics Canada, Survey of Employment, Payrolls and Hours (SEPH); special tabulation for Industry Canada; and calculations by Industry Canada. The underlying data are regularly published in the* ***Small Business Quarterly*** .

Note: *SEPH data exclude self-employed workers who are not on a payroll, and employees in the following industries: agriculture, fishing and trapping, private household services, religious organizations and military personnel of defence services. Data underlying this table exclude employment in Public Administration, postal services, public transit, educational services and institutional and other government-funded health care services, but include employment in private sector health practices and beer and liquor stores.*

Graph 4: Percent Contribution to Net Private Sector Paid Employment Change by Size of Business Enterprise, 1994~2000



Source: Table 5

In October 2001, Statistics Canada started to publish the employment data from the Survey of Employment, Payrolls and Hours (SEPH) in more detailed breakdown by size of business enterprise. Data on this basis are available only from the first quarter of 2000 onwards and for the four quarters of 2000 the data based on the Standard Industrial Classification (SIC-1980) were backcasted to the new North American Industrial Classification System (NAICS). Net changes in employment in the quarters of 2001 over the corresponding quarters of 2000 should therefore be treated with some caution. According to these new data, private sector payroll jobs continued to increase over the 4 quarters of 2001 but the rate of increase slowed over the course of the year from almost 400,000 jobs created in the first quarter to less than a quarter of that amount in the fourth quarter (see Table 6). The major contributor to job creation also shifted from the large and medium sized firms to firms with fewer than 100 employees. In fact, according to these data, the contribution to job creation by firms with fewer than 100 employees reached a whopping 159% and compensated for big job loss by medium and large businesses in the last quarter of 2001.

Table 6: Year over Year Net Private Sector Paid Employment Change and Percent Contribution by Size of Business Enterprise, 2001 Q1~Q4

Year and Quarter	Total Net Change	Net Private Sector Paid Employment Change by Size of Business								
		0~4	5~19	20~49	50~99	*Small (<100)*	100~299	300~499	*Medium (100~499)*	Large (500+)
2 0 0 1 Q1	403,934	44,092	6,428	39,708	28,291	*118,520*	56,422	20,818	*77,241*	208,180
Q2	289,725	7,815	30,157	43,897	42,064	*123,934*	43,089	9,153	*52,243*	113,553
Q3	194,830	64,440	11,522	39,862	38,427	*154,250*	14,101	-3,195	*10,906*	29,688
Q4	90,913	44,896	42,191	41,685	15,731	*144,503*	-18,982	-30,022	*-49,005*	-4,589
% Contribution to Private Sector Employment Change by Size of Business										
2 0 0 1 Q1	100%	10.9%	1.6%	9.8%	7.0%	*29.3%*	14.0%	5.2%	*19.1%*	51.5%
Q2	100%	2.7%	10.4%	15.2%	14.5%	*42.8%*	14.9%	3.2%	*18.0%*	39.2%
Q3	100%	33.1%	5.9%	20.5%	19.7%	*79.2%*	7.2%	-1.6%	*5.6%*	15.2%
Q4	100%	49.4%	46.4%	45.9%	17.3%	*158.9%*	-20.9%	-33.0%	*-53.9%*	-5.0%

Source: Statistics Canada, Survey of Employment, Payrolls and Hours (SEPH), January 2002; calculations by Industry Canada.

Note[1]: SEPH data exclude self-employed workers who are not on a payroll, and employees in the following industries: agriculture, fishing and trapping, private household services, religious organizations and military personnel of defence services. The data breaking down employment by size of firm also exclude unclassified industries.

Note[2]: Statistics Canada cautions that data by size produced for quarters prior to year 2001 were estimated from the previous data based on the SIC-1980 and then backcasted on the new NAICS classification. Especially in the smallest size categories, more volatility in the data should be expected.

Note[3]: Data shown in this table exclude employment in Public Administration, postal services, public transit, educational services and institutional and other government-funded health care services, but include employment in private sector health practices and beer and liquor stores. The March 2002 issue of the Small Business Quarterly published data as in Table X, but without excluding public sector employment. A technical note on the separation of public and private sector employment is available.

How Much Do Small Business Employees Earn?

The Survey of Employment, Payrolls and Hours (SEPH) of Statistics Canada publishes the average weekly earnings at the enterprise level based on weekly payroll data. These data include gross pay as well as overtime and bonuses, commissions and other special payments before major deductions such as income taxes, employment insurance contributions etc., but excludes taxable allowances and benefits, and employer contributions to employment insurance, pension plans and other welfare plans. Average weekly earnings are derived by dividing total weekly payrolls by payroll employment (see **How Many People Work for Small Businesses**). The SEPH excludes self-employed persons unless the person is on the payroll of his/her enterprise, and does not cover the following industries: agriculture, fishing and trapping, private household services, religious organizations and military personnel of defence services.

In 2001, an average worker in Canada's private sector earned approximately $676 per week (Table 7 and Graph 5). Generally, the size of a business was positively related to the weekly earnings of its employees: Small firm employees working for businesses with fewer than 100 employees earned below the average with a weekly earning of $589, whereas those working for medium-sized firms (more than 100 but fewer than 500 employees) and large firms (more than 500 employees) earned above average weekly earnings of $701 and $753, respectively. The only exception to this pattern are firms in the service-producing sector with more than 5 but fewer than 20 employees, where the weekly earnings are lower than smaller firms with fewer than 5 employees. This is primarily due to the fact that over 30% of total employment in that size category is made up by the two lowest paying industries, namely retail trade, and accommodation and food services.

On average in 2001, goods-producing employees were paid $242 more per week than the people working in the service-producing sector. The difference between the two sectors was greatest in large firms, at about $294 per week, or an annual average differential of $15,000. However, goods-producing employees also worked longer hours, so on a per-hour basis the difference would be less pronounced.

Table 7: Average Weekly Earnings by Firm Size (Number of Employees) in the Private Sector, 2001

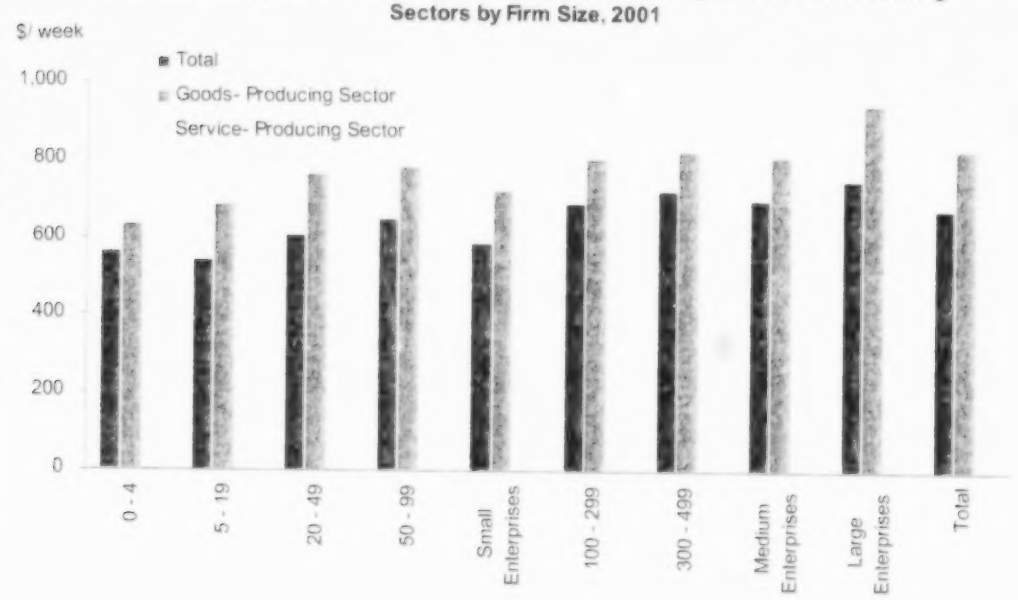
Number of Employees	Total	Goods-Producing Sector	Service-Producing Sector
0 - 4	566.84	633.74	548.31
5 - 19	540.39	684.70	498.46
20 - 49	605.35	764.21	545.19
50 - 99	651.50	786.95	590.01
***Small Enterprises* (less than 100)**	*589.06*	*723.32*	*541.02*
100 - 299	691.98	809.39	616.89
300 - 499	726.28	826.71	657.31
Medium Enterprises (100~499)	*701.90*	*814.40*	*628.59*
***Large Enterprises* (500 or more)**	753.14	948.71	654.28
Total	**675.84**	**831.04**	**588.78**

Source: *Statistics Canada, Survey of Employment, Payrolls and Hours (SEPH), January 2002; calculations by Industry Canada.*

Note: *SEPH data exclude self-employed workers who are not on a payroll, and employees in the following industries: agriculture, fishing and trapping, private household services, religious organizations and military personnel of defence services. Data underlying this table exclude employment in Public Administration, postal services, public transit, educational services and institutional and other government-funded health care services, but include employment in private sector health practices and beer liquor stores. A technical note on the separation of public and private sector employment is available.*

Note: *By conventional Statistics Canada definition, the goods-producing sector consists of NAICS codes 11 to 31~33, while NAICS codes 41 to 91 define the service-producing sector.*

Graph 5: Average Weekly Earnings in the Goods-Producing and Service-Producing Sectors by Firm Size, 2001



Source: Table 7

What is the Contribution of Small Businesses to Canada's Gross Domestic Product?

Gross Domestic Product (GDP) is a key measure of economic production. It can be used to compare the share of one sector with that of another. It represents the value that a sector adds to the inputs it uses. One of its major strengths is that it avoids double-counting.

Because it measures unduplicated value-added, GDP is considered more useful to gauge economic performance than, say, revenue, business counts or even employment.

The Organization for Economic Cooperation and Development (OECD) has published estimates of the small business contribution to GDP in member countries. Its 2000 Canada profile stated that 43% of private sector GDP may be attributed to SMEs, where SMEs are defined as businesses with fewer than 500 employees.

In Canada, the Government of British Columbia (BC Stats) has developed a top-down method to determine the small business contribution to GDP, by province, utilizing the income-based approach in the System of National Accounts.[1]

BC Stats' definition of "small businesses" is limited to businesses with fewer than fifty employees, plus those operated by a self-employed person with no paid employees. By this definition, it is estimated that, in 1999, small business accounted for approximately 23 percent of Canada's GDP. The percentage varies from a low of 17% in Newfoundland to a high of 27% in British Columbia. The percentage contribution for Canada and in each province for the years 1993 to 1999 is exhibited in Table 8.

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[1] A background note describing the method in somewhat greater detail is available upon request; please contact **Customer Services**.

Table 8: Small Business Contribution to GDP, 1993 to 1999, by Province, in percent

Province	Contribution to GDP, in percent						
	1993	1994	1995	1996	1997	1998	1999
British Columbia	32	32	32	31	30	30	27
Alberta	26	25	28	26	26	27	25
Saskatchewan	29	27	30	31	26	27	25
Manitoba	24	24	25	26	24	23	21
Ontario	22	23	24	23	22	22	22
Quebec	26	26	27	26	24	24	23
New Brunswick	26	25	27	25	24	23	22
Nova Scotia	24	24	27	26	25	24	23
Prince Edward Island	34	33	34	28	26	26	26
Newfoundland	21	20	21	21	21	19	17
Canada	**25**	**25**	**26**	**25**	**24**	**24**	**23**

Source: BC Stats

Who is Self-Employed?

Self-employed persons are people who earn income directly from their own business, trade, or profession rather than as a specified salary or wage from an employer. Statistics Canada defines self-employed persons as working owners of an unincorporated or incorporated business, persons who work for their own account but do not have a business, and persons working in a family business without pay. All data shown in this section are derived from Statistics Canada's Labour Force Survey.

How many People are Self-Employed?

In 2001, self-employed persons represented approximately 15% of the total labour force of the Canadian economy. The number of self-employed persons peaked in the first quarter of 2000 at 2.5 million and currently stands at about 2.3 million (Table 9). In recent years, slightly over one third of self-employed workers have been female; the share of female self-employment has increased steadily from just over one-quarter in 1976.

Table 9: Total Number of Self-Employed Persons by Sex, yearly and quarterly, 1976–2001, in thousands

Year and Quarter	Total	Male	% of Total	Female	% of Total
1976	1,193.3	879.3	74%	313.9	26%
1977	1,226.2	892.8	73%	333.4	27%
1978	1,283.6	924.6	72%	359.1	28%
1979	1,336.2	951.3	71%	384.9	29%
1980	1,385.9	986.3	71%	399.6	29%
1981	1,442.5	1,031.6	72%	410.9	28%
1982	1,503.7	1,069.9	71%	433.8	29%
1983	1,551.3	1,099.6	71%	451.8	29%
1984	1,569.0	1,095.4	70%	473.6	30%
1985	1,685.1	1,162.8	69%	522.3	31%
1986	1,656.0	1,164.6	70%	491.5	30%
1987	1,695.6	1,183.2	70%	512.5	30%
1988	1,772.2	1,231.2	69%	541.0	31%
1989	1,803.4	1,242.5	69%	560.9	31%
1990	1,842.7	1,265.7	69%	577.0	31%
1991	1,887.4	1,303.9	69%	583.4	31%
1992	1,919.3	1,309.0	68%	610.3	32%
1993	2,027.1	1,372.3	68%	654.8	32%
1994	2,036.3	1,356.0	67%	680.2	33%
1995	2,097.8	1,391.6	66%	706.2	34%
1996	2,169.4	1,426.4	66%	743.0	34%
1997	2,353.7	1,524.5	65%	829.2	35%
1998	2,425.2	1,562.2	64%	863.0	36%
1999	2,462.9	1,600.5	65%	862.4	35%
2000	2,421.4	1,568.5	65%	852.8	35%
2001	2,309.2	1,526.0	66%	783.3	34%
2000 Q1	2,496.4	1,613.0	65%	883.5	35%
Q2	2,428.9	1,570.6	65%	858.3	35%
Q3	2,409.7	1,552.3	64%	857.5	36%
Q4	2,350.4	1,538.3	65%	812.1	35%
2001 Q1	2,305.0	1,520.5	66%	784.5	34%
Q2	2,324.3	1,534.8	66%	789.6	34%
Q3	2,320.0	1,550.3	67%	769.8	33%
Q4	2,287.5	1,498.3	65%	789.2	35%

Source: Statistics Canada, Labour Force Survey

Table 10 shows a breakdown of the self-employed in five categories from 1976 to 2001. On average in 2001, of the 2.3 million self-employed persons, 64% had no paid help, 35% worked with paid help and 1% were unpaid family workers. Both the self-employed with paid help and those without paid help can be further divided according to whether their business was incorporated or not. Of those who worked without paid help, 80% or 1.2 million were unincorporated; this category accounted for about half the total number of self-employed in Canada.

Table 10: Average Number of Self-Employed Persons by Category, 1976-2001, and Average Annual Growth Rates

Year	Total	With paid help			Without Paid Help			Unpaid Family Workers
		Total	Incorporated	Unincorporated	Total	Incorporated	Unincorporated	
1976	**1,193.3**	444.3	204.8	239.5	613.7	45.5	568.2	135.3
1977	**1,226.2**	475.8	227.4	248.4	624.0	45.9	578.1	126.5
1978	**1,283.6**	488.1	236.9	251.2	663.4	50.1	613.3	132.1
1979	**1,336.2**	511.0	257.9	253.1	691.4	49.1	642.3	133.9
1980	**1,385.9**	547.1	304.2	242.9	724.5	58.2	666.3	114.3
1981	**1,442.5**	591.5	337.7	253.8	725.1	64.8	660.3	126.1
1982	**1,503.7**	636.4	356.3	280.1	748.8	76.3	672.5	118.5
1983	**1,551.3**	667.4	370.9	296.5	769.6	78.9	690.7	114.4
1984	**1,569.0**	644.7	358.9	285.8	817.0	78.5	738.5	107.4
1985	**1,685.1**	725.0	401.2	323.8	853.7	81.9	771.8	106.4
1986	**1,656.0**	720.8	401.9	318.9	834.8	89.4	745.4	100.5
1987	**1,695.6**	732.0	416.9	315.1	868.2	98.6	769.6	95.4
1988	**1,772.2**	780.4	465.1	315.3	910.9	101.5	809.4	80.9
1989	**1,803.4**	795.5	469.7	325.8	934.5	112.0	822.5	73.5
1990	**1,842.7**	801.2	477.7	323.5	973.0	120.5	852.5	68.5
1991	**1,887.4**	828.6	497.5	331.1	993.7	132.6	861.1	65.0
1992	**1,919.3**	813.8	493.6	320.2	1,039.2	140.1	899.1	66.3
1993	**2,027.1**	832.9	508.4	324.5	1,119.1	144.0	975.1	75.0
1994	**2,036.3**	805.1	469.2	335.9	1,173.0	157.4	1,015.6	58.0
1995	**2,097.8**	829.8	510.5	319.3	1,210.1	170.5	1,039.6	57.9
1996	**2,169.4**	813.9	493.0	320.9	1,299.2	189.8	1,109.4	56.3
1997	**2,353.7**	819.3	530.9	288.4	1,469.2	253.6	1,215.6	65.2
1998	**2,425.2**	814.8	515.4	299.4	1,549.8	250.4	1,299.4	60.6
1999	**2,462.9**	838.7	541.9	296.8	1,577.6	279.6	1,298.0	46.5
2000	**2,421.4**	840.0	534.9	305.1	1,538.1	297.0	1,241.1	43.3
2001	**2,309.2**	805.5	506.5	299.0	1,469.8	308.1	1,161.7	34.1
Average Annual Growth Rate, 1977~2001								
	2.8%	2.5%	3.8%	0.9%	3.7%	8.3%	3.0%	-5.6%

Source Statistics Canada, Labour Force Survey

Graph 6: Self-employed persons by category, in thousands, 1976~2001

Source: Table 10

As the relatively gentle slopes of the lines in Graph 6 indicate, the overall composition by different categories has not changed dramatically in the past 25 years. However, some shifts did occur. Over the last 25 years, total self-employment has increased at an annual average rate of 3%. Incorporated self-employed persons, both those who made use of paid help and those who did not, grew faster than average; those incorporated without paid help increased at more than 8% per year, and those with paid help grew at a more moderate 4% per year. On the other hand, the unpaid family workers category decreased rapidly at a rate of 6% per year. Unincorporated self-employed persons with paid help grew at a rate of 1%, far less than the average. The largest category, those unincorporated without paid help, made up just under half the total number of self-employed in 1976 and just over half in 2001; that is, their numbers grew slightly faster than the overall average.

In 2001, self-employment continued to show strength in categories such as those incorporated without paid help, but declined overall. The decrease was particularly strong among the self-employed who were unincorporated and had no paid help and unpaid family workers.

How has Self-Employment contributed to Job Creation?

Generally, the increasing trend toward self-employment has supported total employment growth. Positive contributions to total net employment growth have ranged from 6% to 111% since 1977 (Table 11), and over that period there have been just three years (1986, 2000 and 2001) where the net change in self-employment was negative. In 1982 and 1991-92, self-employment grew strongly while total employment growth turned negative due to economic recessions. This is because when job market conditions tighten, more people who can not find suitable employment tend to start their own business and become self-employed. Table 11 and Graph 7 also show the percentage contribution to job growth through self-employment in the private sector only. For this table, private sector employment is defined as the sum of self-employment and private sector employees for all sizes of firms[1]. Again it is clear that the self-employed's contribution to total private sector employment is strong during and around recessionary years and has varied substantially in other years.

[1] The definition of private sector employees in the Labour Force Survey utilized in Table 8 is not identical to that underlying the SEPH data in Table 4 but the differences are not large.

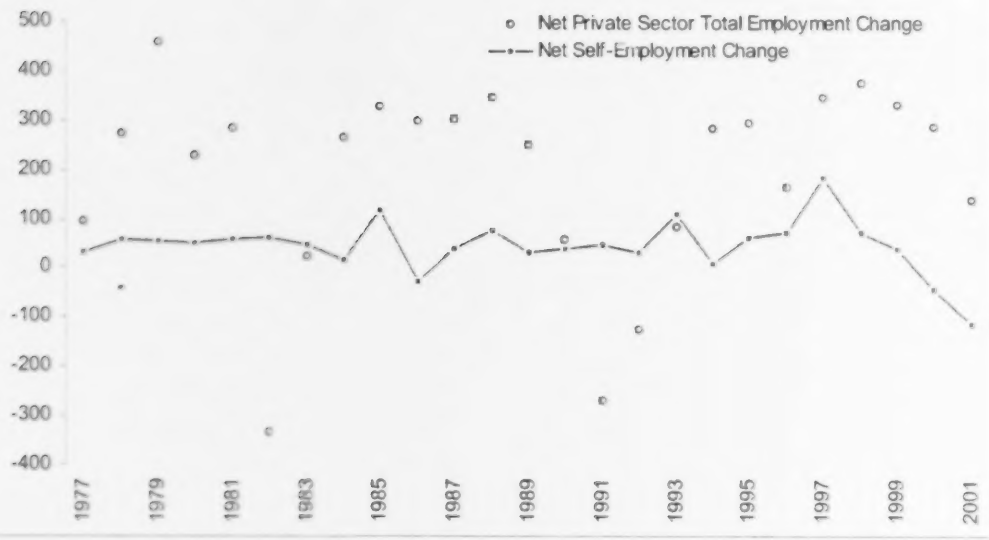
Table 11: Total Net Employment Change, Net Employment Change for Private Sector Employees and Net Change in Self-Employment, 1977~2001, year-to-year, in thousands

Year	Total Net Employment Change	Private Sector Total Net Employment Change	Private Sector Employees			Self-employed Persons		
			Net Change	% of Total Employment Change	% of Total Private Sector Employment Change	Net Change	% of Total Employment Change	% of Total Private Sector Employment Change
1977	138.5	94.0	61.1	44%	65%	32.9	24%	35%
1978	297.5	274.7	217.3	73%	79%	57.4	19%	21%
1979	445.5	457.9	405.3	91%	89%	52.6	12%	11%
1980	312.4	229.7	180.0	58%	78%	49.7	16%	22%
1981	326.7	284.4	227.8	70%	80%	56.6	17%	20%
1982	-349.8	-331.3	-392.5	112%	(-)118%	61.2	(+) 17%	(+) 18%
1983	80.0	24.2	-23.4	-29%	(-) 97%	47.6	60%	197%
1984	273.0	265.9	248.2	91%	93%	17.7	6%	7%
1985	317.3	327.5	211.4	67%	65%	116.1	37%	35%
1986	361.7	297.5	326.6	90%	110%	-29.1	(-) 8%	(-) 10%
1987	341.7	303.9	264.3	77%	87%	39.6	12%	13%
1988	389.6	345.8	269.2	69%	78%	76.6	20%	22%
1989	276.1	252.5	221.3	80%	88%	31.2	11%	12%
1990	97.6	59.1	19.8	20%	34%	39.3	40%	66%
1991	-233.3	-270.8	-315.5	135%	(-)117%	44.7	(+) 19%	(+) 17%
1992	-90.7	-125.8	-157.7	174%	(-)125%	31.9	(+) 35%	(+) 25%
1993	97.5	84.9	-22.9	-23%	(-) 27%	107.8	111%	127%
1994	254.2	282.9	273.7	108%	97%	9.2	4%	3%
1995	245.2	294.9	233.4	95%	79%	61.5	25%	21%
1996	105.7	163.9	92.3	87%	56%	71.6	68%	44%
1997	311.8	347.0	162.7	52%	47%	184.3	59%	53%
1998	366.0	378.8	307.3	84%	81%	71.5	20%	19%
1999	390.8	330.9	293.2	75%	89%	37.7	10%	11%
2000	378.5	287.7	329.2	87%	114%	-41.5	(-) 11%	(-) 14%
2001	167.1	137.7	249.9	150%	181%	-112	(-) 67%	(-) 81%

Source: Statistics Canada, Labour Force Survey (LFS). The LFS definition of "private sector" generally agrees with the definition underlying the SEPH data in Table 4 but the two are not identical.

Note: (-) indicates a negative contribution to Total Employment Change.
(+) indicates a positive contribution, despite a negative Total Net Change.

Graph 7: Net Employment Change for Private Sector Employees and Self-Employment, year-to-year, in thousands, 1977~2001



Source: Table 11